

Subcommittee on Africa, Global Human Rights and International Operations

Implementing The Microenterprise Results and Accountability Act of 2004

Statement of Christopher H. Smith, Chairman

September 20, 2005

Good Afternoon, and welcome to this hearing of the Subcommittee on Africa, Global Human Rights and International Operations. Today we will be examining the implementation of PL 108-484, the Microenterprise Results and Accountability Act of 2004.

Earlier this year, I travelled to coastal areas of Indonesia, Thailand, and Sri Lanka which had been devastated by the tsunami. The destruction from those 50-foot high waves was almost total, and the vast majority of individuals affected were fisherman and other working poor whose boats and nets and livelihoods had been completely swept away. While they gratefully received the emergency food aid and shelter which our military and our USAID disaster relief teams so efficiently provided, in the medium term, what these folks really needed and wanted was a small loan to enable them to rebuild their businesses and become self-sufficient again.

The same could be said of areas in our own country which have been devastated by Hurricane Katrina. While I am not aware of any microloan programs operating in New Orleans, having read Dr. Morduch's testimony which he will give later today, I do know that a microcredit group, Accion New York, serves over 6,000 customers in the New York metropolitan area.

Whether here or abroad, I have long been a fan of microcredit programs because I have seen them work. The term "foreign aid" often has a bad connotation -- and there are some good reasons why, too. Many times in the past, foreign aid was delivered in a top-down manner to corrupt governments and organizations, where it never really reached the intended recipients.

Microenterprise, on the other hand, takes a totally different approach. It's a "trickle-up" approach that focuses on helping the poorest people on the planet build themselves up, little by little, into self-sufficiency by giving them access to financing. The success of microenterprise lending programs to empower entrepreneurs and borrowers in the developing world cannot be overstated.

Over two million clients are currently benefiting from USAID-assisted programs that provide the necessary capital through small loans, usually of a few hundred dollars or less, for entrepreneurs to start and expand their own small businesses. It is estimated that 97% of microenterprise loans are successfully repaid and 70% go to women, who are often very vulnerable, subjected to abuse, and in need of economic opportunities in the

developing world. Microenterprise is a key vehicle to assist victims of trafficking and to raise the social and economic status of women around the world.

Microenterprise also complements the principles President Bush has outlined for more effective foreign aid through the Millennium Challenge Account, and is a key component for fulfilling the UN's Millennium Development Goals to eradicate world poverty by the year 2015. Business owners assisted by micro-lending are not only able to increase their own incomes, but through their own efforts, they create jobs and help economies grow.

Success stories from the beneficiaries of microenterprise are quite numerous. Take for example, Dorothy Eyiah (EYE-ee-ah) from Ghana. Dorothy was resourceful, but she had no idea how she was going to support her AIDS-stricken sister and family when she brought them into her home in Ghana. She used to support herself selling ice, but that wasn't going to pay for the food and medicines she now needed. She started praying. All doors seemed shut until Dorothy met some women within her village who were part of an Opportunity International Trust Bank. The Trust Bank could help her grow a small business - providing her with financing, training, support. Five loans later, Dorothy is the secretary of her Trust Bank and runs three businesses, employing nine people from her village. She is content. Her sister is comfortable, all the children are in school, and their needs are being met. "God has been so good to me," she says.

Success stories such as this are what microfinance and the Microenterprise Results and Accountability Act of 2004 are all about. By building the best possible microenterprise program, we will be able to reach the greatest possible number of poor people with services that truly have an impact on their lives. As we compare the effectiveness of various methods of implementing microcredit programs, success will be measured by the ability to reach very poor people and other underserved populations, including women, and by the kind of impact these programs have on poor families. We are concerned not only with the efficient delivery of financial services, but also with the well-being of those who receive those services. We want to see poor people work their way out of poverty, increase their income, build their assets, and grow their businesses, and we also want to see them educate their children, achieve greater self-esteem, strengthen their families, and improve the quality of their lives.

I introduced the Microenterprise Results and Accountability Act of 2004 at the beginning of the 108th Congress, and the final product represents the culmination of months of hard work and discussion by Republicans and Democrats in both the House and Senate, members of the microenterprise community, and USAID, to build upon one of our most progressive and successful foreign aid programs.

This legislation is primarily about ensuring better results, not authorizing additional money. A comprehensive GAO report completed in November 2003 revealed that oversight and accountability of microenterprise programs administered by USAID is weak, and that programs are not having the desired effect of reaching the very poor - those earning less than the equivalent of \$1/day - to the greatest extent possible.

In response to those concerns, PL 108-484 builds-in accountability through a focus on cost-effectiveness and efficiency. The law establishes a dedicated Microenterprise Office within USAID which will approve strategic plans of field missions, establish a monitoring system in order to maximize the impact of programs and measure results, and coordinate preparation of a yearly report to Congress. The legislation also ensures that more funds go to the “very poor” through the development and implementation of easy-to-use, cost-effective poverty assessment techniques. Identifying and targeting the poorest potential clients who would stand to benefit most from microenterprise loans has proven to be more difficult than originally anticipated. I am hopeful that once developed, these poverty assessment techniques may prove useful not only for microenterprise but also in other areas of our foreign aid.

PL 108-484 also stipulates that USAID should emphasize the use of global microfinance networks and other non-profit private voluntary organizations in the implementation of microenterprise and microfinance programs. In the last two years, I am concerned that USAID has been shifting its focus away from non-profit organizations and networks to contractors in the implementation of the Agency's microenterprise program.

While for-profit entities such as consulting firms are making excellent contributions in the areas of technical assistance, research and policy reform, global microfinance networks and non-profit private voluntary organizations have the operational experience and track record in microenterprise and microfinance service delivery to poor people. These organizations are able to get resources directly to clients, and are well positioned to reach the very poorest economically active entrepreneurs in the countries where they work. Further, such networks have built self-sustaining microfinance institutions that now cover, on average, almost all of their operating costs. More than \$150 million in earned revenue was captured by these institutions in 2002 to cover their operating costs, in addition to private donations that have added significant leverage to USAID's investments. These networks have excelled in rapidly developing microfinance institutions in volatile and risky situations, including during the early stages of a country's transition from war to peace.

I look forward to a vigorous discussion at today's hearing about these important issues. Yet as we debate and discuss, I hope we remember our common concern to equip those who want to escape from poverty with the tools to build a better life. For when we provide micro loans for the developing world, we export values upon which our nation is based upon, including the ideal that if you work hard and dream big, you can succeed.

I turn now to my good friend and colleague, Mr. Payne, for his opening remarks.